
OFFICIAL STATISTICS AND CHALLENGES IN TERMS OF “PHOTOGRAPHING” THE ECONOMIC AND FINANCIAL CRISIS

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Abstract

It refers to the translation in European statistics of long term priorities to answer the structural issues of faced by Europe at present. It is about the outline of those statistical fields which could provide the package of statistical data and information needed to have a correct and operative underlying of political initiatives. It is particularly analyzed the European Semester and commented the new approaches generated in official statistics by this instrument coordinating economic and fiscal policies of EU member states. In the context of community objectives, the National institute of Statistics in Romania proposes among other actions to reflect actual phenomena and processes faced by society as a whole, priorities adapted to monitoring imperatives under statistical aspect of economic and financial crisis.

The current economic situation at European level: brief description

The economic and financial crisis has shown that Europe is dealing with a series of structural problems, such as: inert economic growth; the lack of productivity; high unemployment rate; high debt and deficit levels.

Fortunately, there are visible signs of a gradual improvement, although the recovery is still fragile. The global challenges, such as the competition between the developed countries and the emerging countries, the climate change, the pressure on resources, etc., are obvious.

Europe's response had to be a firm one: **setting long-term priorities**. The response of European statistics had to be up to the task: **outlining the statistical areas** that can provide the set of statistical data and information necessary for accurately and timely substantiating policy initiatives.

PRIORITIES**CONCERNS OF OFFICIAL
STATISTICS**

Globalisation	Foreign trade statistics; The role of multinational companies; Data on the stock of goods, production and consumption; <u>Workers' remittances.</u>
Sustainable development	Data on environmental goods and services; «Green» innovations; Demographic projections (different scenarios); Statistics on energy consumption; Statistics on greenhouse gas emissions.
GDP and beyond	Report by the Commission on the Measurement of Economic Performance and Social Progress (the Stiglitz-Sen-Fitoussi report); Measuring the Progress of Societies (OECD); Integrating economic, social and environmental <u>issues in order to measure the progress of societies.</u>
Co-ordinating economic policies; Structural reforms necessary for boosting economic growth, creating employment and competitiveness	Strategy for providing the EU with a framework for statistics related to the strengthened co-ordination of economic policies; Adequate mechanisms for continuing to provide high quality statistical data; The response of statistics to the need for branch-level data on: employment (hours worked, qualifications); resources (materials, energy, services); investment (information and communications technology, research and development); (financial and non-financial) assets; “green” taxes and subsidies; Quality management in statistics.

Firstly, Europe had to address the issue of **the surveillance of the economies of Member States** and it did so by strengthening the national fiscal frameworks, paying increased attention to public debt, more promptly identifying macro-economic imbalances and the developments in terms of competitiveness, particularly in the euro area. Secondly, Europe decided not to neglect **the integration of policies, on the one hand, and the integration of the Member States as a whole, on the other hand**, by setting up the European Semester (policies that are integrated in the national cycle of policy planning using an ex-ante approach) and by introducing the legislative package on economic governance.

As this article focuses on the actions related to the co-ordination of economic policies, one of the solutions found at European level was the

decision on the **European Semester** (Romania is part of as of this year) as a common tool for the co-ordination of economic and fiscal policies of EU Member States, by means of which budgetary discipline, macro-economic stability and growth promotion policies are monitored.

The new process will take place in several stages: in January, the European Commission presents the Annual Growth Survey (AGS), a report assessing the degree to which Member States followed the recommendations made by the Council the previous year. In March, the European Council identifies the main economic challenges and provides policy advice, based on the report presented by the Commission in January. Then, in April, the Member States send the Stability and Convergence Programmes and the National Reform Programmes to the Commission, in accordance with the recommendations of the European Council. In June and July, the Council of Economic and Finance Ministers (ECOFIN) and the European Council draw up country-specific guidelines and recommendations on budgetary and economic policies, based on which Member States finalise their budgets for the following year. The states that do not follow the recommendations will be fined.

The Commission's legislative package (29 September 2010)

<p>Fiscal surveillance</p> <ul style="list-style-type: none"> - The preventive arm of the Growth and Stability Pact: the principles of prudent fiscal policy (amendment to Regulation No 1466/97); - The corrective arm of the Growth and Stability Pact : reference for reducing the debt ratio (amendments to Regulation No 1466/97); - Minimum requirements for national fiscal frameworks (new draft directive) <p>Sanctions for non-compliance (new draft regulation)</p>	<p>Macro-economic surveillance</p> <ul style="list-style-type: none"> - New procedures for monitoring, preventing and correcting macro-economic imbalances (new draft regulation) <p>Sanctions for non-compliance (new draft regulation)</p>
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The legislative package¹ (three draft regulations and a directive) aims to strengthen the Economic and Monetary Union after the crisis in order to ensure macro-economic stability and the sustainability of public finance.

What new approaches to statistics are generated by the European Semester?

Official statistics has always been the “photo” on which the economists base their analyses, and the statisticians are nothing more than professional and active photo reporters who do their best to capture reality through statistical data.

Fiscal surveillance

After analysing the Commission’s legislative proposal from the perspective of statistics, we came to the conclusion that statistical implications are particularly generated by the draft directive, namely:

- the checking of the data on public finance by Eurostat (Statistical Office of the European Communities) and by the National Statistical Institutes in order to compile quality statistics for the Excessive Deficit Procedure (EDP);
- the reformation and harmonisation of national budgetary and accounting processes.

The debt criterion set out in the EDP must be made operational, especially through the adoption of a reference numerical criterion to decide whether the debt ratio is sufficiently diminishing toward the 60 % of GDP threshold. Specifically, a debt ratio that exceeds 60% of GDP is to be considered sufficiently diminishing if the gap between this ratio and the 60% of GDP reference value reduced at a rate of 1/20 per year over the previous three years. The non-compliance with this reference numerical criterion does not mean that the excessive deficit procedure will be launched against the country concerned, as this decision needs to take into account all relevant factors, especially as regards the assessment of debt developments (a very low nominal growth that can hamper debt reduction, together with risk factors linked to the debt structure, private sector indebtedness and implicit liabilities related to ageing).

In line with the greater emphasis on debt, in the event of non-compliance with the deficit criterion, the relevant factors become very important, especially if a country’s debt is below the 60% of GDP threshold.

In this respect, it is essential to know the impact of the new European System of National Accounts on government deficit and debt (one of the actions required by the ECOFIN Council of November 2010).

The alert and the excessive imbalance procedure

The mechanism for the prevention and correction of macro-economic imbalances refers to the excessive imbalance procedure.

This procedure includes a periodic assessment of the risk of imbalances,

as well as an alert mechanism, coupled with rules conceived to enable the adoption of correction measures in the event of unfavourable macro-economic imbalances that go beyond the budgetary policy. The excessive imbalance procedure applies to all Member States. The surveillance starts from an alert mechanism that aims to identify the Member States that are dealing with potentially problematic levels of macro-economic imbalances. The alert mechanism consists of a scoreboard composed of several indicators (usually 11, namely: the current account balance as share of GDP; net foreign financial assets as share of GDP; the export market share; the actual exchange rate, calculated as the weighted average of a country's foreign currency relative to a foreign currency basket; the unit labour cost; the harmonised index of consumer prices; dwelling prices; the value added in construction as share of GDP; private sector debt as share of GDP; private sector credit as share of GDP; public debt) that can assess, for each Member State, the size of macro-economic imbalances and competitiveness problems, an image complemented by a critical analysis.

The statistical indicators are not set by law and can be modified any time there are potential imbalances for new economic phenomena. The alert thresholds for each indicator will be set and announced. They will detect both the excessively high levels and the excessively low levels of the variables. The thresholds must be viewed as indicative values for the assessment exercise and should not be interpreted mechanically. These thresholds must be complemented by an economic analysis and by a country-specific report. The Commission will provide a thorough assessment of the situation of each Member State for which the alert mechanism indicates the possibility or the risk of imbalances.

Alert mechanism

The **Commission** delivers a report based on the indicators (scoreboard) and on the economic analysis; the Member States for which there are potential risks are identified

Analysis

The Commission prepares country studies using enlarged sets of indicators and other analytical tools

- no problems

the procedure is terminated

- imbalances

Council/Commission recommendations

ECOFIN discusses and adopts the conclusions to be taken into account by the Commission

- severe imbalances

recommendations and corrective actions

Identification of problematic disequilibria	Sustainability of macro trends <ul style="list-style-type: none"> - early warning; - deviations from the equilibrium status (competitiveness, dwellings prices, credit increase); - other factors (economic growth, demography, gaps recovery, global disequilibria, disequilibria related to savings and investments, dwellings market) - political factors (fiscal policy, financial management, labour market institutions) Adjustment capability <ul style="list-style-type: none"> - salaries and prices flexibility; - labour market flexibility; - balancing adjustment; - financial market intermediations.
Political response	Political options: <ul style="list-style-type: none"> - salary negotiation systems; - financial markets management; - fiscal policy; - structural and growth reforms.

At the ECOFIN meeting of November 2010, clear recommendations for connecting economic policies coordination and statistics were formulated. It was stressed that: *„it is crucial that statistical indicators and input data used for a consolidated economic policies coordination should be based on a robust methodological framework for statistics, compiled in accordance with the principles stipulated in the European Statistical Code, and that the European Statistical System is involved in the debates of statistical issues raised by indicators”*. The transposition of this political message by official statistics would entail the following tasks to be assumed by the national statistical offices:

- ensuring the adequate coverage and periodicity of indicators;
- compiling the quality profiles of indicators;
- ensuring the support for a wider range of indicators used for thorough studies;
- quality management in statistics.

Enhancing the official statistics quality

The quality issue is not new within the European Statistical System; we would, however, bring to discussion a new approach, more focused, particularly in terms of conceptualization and implementation of the European Code of Practice in statistics and of bringing into force the Community Statistical Law (Regulation (EC) 223/2009). Moreover, due to the case of Greece (with all the implications upon Greek statistics), in August 2010 the Commission got extended powers of control in the field of fiscal notification. As regards the ECOFIN Council recommendation, the European Statistical System concluded that a feed back is imperatively necessary, particularly in relation with strengthening national statistical systems reliability and with European statistics quality, through an approach based on priorities setting and on risks assessment.

At the meeting of the European Statistical System Committee (ESSC²) of February 2011, held in Luxembourg, two actions were identified as main reactions of the European Statistical System: statistical governance and prevention in case of fiscal notification exercise.

(a) Statistical governance mainly implies the accurate implementation of the European Code of Practice in statistics. What would this mean, in addition to what was done so far?

- amending Regulation 223/2009 in view to clarify some issues related to non-conditionality of professional independence; statisticians involvement in designing administrative data requirements;

- reviewing the European Code of Practice in statistics in relation with defining the minimal standards of the Code in terms of institutional principles (resources of national statistical offices, appointment of official statistical institutions general directors);

- concluding the so called „confidence pact” with each Member State for monitoring the Code of Practice implementation, built up based on an appropriate legal instrument, comprising at least the following chapters: (1) ensuring the quality and an implementation schedule defined by each Member State, depending on its peculiarities, stipulating the priority actions; (2) a self-assessment of national statistical systems functioning compliance with the Code of Practice principles for each Member State, carried out with a certain frequency, under the coordination of official statistics institutes;

- drawing up a programme at the Commission level in view to undertake assessments of Member States implementation of the Code of Practice;

- supervision ensured by the European Statistical Governance Advisory Board - ESGAB³;
- adapting Eurostat Decision (97/281/EC) in view to comply with the current framework already implemented in statistics.

(b) Preventive approach in case of statistics checking through the excessive deficit procedure (**pro-active measures for risk prevention**)

- development of a specialised public management system for public finances statistics (joint undertaking of Eurostat, statistical institutes and national courts of auditing);

- systematic analysis of risks and periodical dialogue visits undertaken by the Commission in relation with the excessive deficit procedure, including public institutions downstream involved in providing national statistical institutes with public finances data;

- commitment of statistical institutes staff involved in the excessive deficit procedures; importance of accountancy data checking by all Member States at all the level of public administration, implementation of effective supervision and control systems at national level;

- adoption of a set of standards for quality management to the peculiarities of fiscal notification compilation process, whose implementation is to be agreed with each Member State and finally endorsed by the Commission;

- checking the completeness and accuracy of the register of entities under the supervision of central administration bodies;

- appropriate implementation of the Code of Practice in the particular process of compiling excessive deficit;

- setting up a working group of national statistical institutes' representatives in view to promote best practices in statistics.

During the meeting of the European Statistical System Committee top priority actions were identified at European level: reviewing the Code of Practice in statistics for an eventual adoption of a new version in September inst., including the identification of minimal standards of the Code; monitoring the new needs of statistical information, particularly of those resulting from the adoption of economic governance package, including actions envisaging quality management in sensitive statistical fields.

What is INS/ Romania holding forth for 2011?

As the coordinator of the National Statistical System, the priority of INS/ Romania for 2011 is the achievement of its objectives and tasks in view to meet to the largest extent the information needs of all categories of

statistical data users. This would suppose the organisation of statistical data collection, production, analysis and dissemination so that the basic message of quantitative data prove relevance, accuracy and reliability in substantiating the decisions related to economic and social development of the country and in ensuring knowledge of Romanian society realities.

In the context of this generic objective, in terms of coverage, the activities will be primordially directed towards reflecting the phenomena and processes faced by the whole society:

- economic and social recovery, and implicitly the evolution of economic crisis surpassing;
- changes occurred at society level and the necessary steps to be taken in the perspective of Romania's participation in ensuring sustainable Europe by achieving the objectives provided by the Europe 2020 Strategy;
- improving the methodological concepts of the activity organisation system by refining the data collection modalities, making use of modern processing means, enhanced transparency and visibility of statistical data and information dissemination;
- increasing the use of administrative data sources under complementarity conditions in relation with the classic system of carrying out statistical surveys;
- improving statistics quality, a corollary of the whole activity;

As consequence of **the transposition at national level of the guidelines set out at European level**, described above, **the National Institute of Statistics established the following priorities for 2011**, these representing the „red lines” of the Annual National Statistical Programme, practically of the whole activity developed by INS:

- the need for effectively and timely providing pertinent information, adapted to the imperatives of monitoring, in terms of statistical quantification, the crisis effects; strengthening the cooperation with collaborator institutions in view to draw up the fiscal notification (Ministry of Public Finances and National Bank of Romania) aiming at monitoring the budgetary deficit and other economic and financial issues;
- the extension of statistical activities towards regional and local context, including the drawing up of sectoral analyses and turning into account the techniques and methods of compiling statistical indicators on small areas;
- improving and harmonising statistics in view to achieve a coherent

and realistic picture of the factors influencing the economic growth; narrowing the delay of circulating information on crisis effects, approaching in methodological terms the contents of raw and adjusted series, carrying out theoretical research and attempting to put in practice, based on academic staff assistance, certain models of economic growth synthetic assessment based on composite indicators; extending the time series upon longer periods, a.s.o.;

- the re-conceptualization of the National Institute of Statistics organisation, from the perspective of rationalising the data flows, of improving the methods of data collection, processing, analysis and dissemination, assessing the primary data quality, as well as of other objectives included in the statistical programmes of the Commission and in the annual and multi-annual National Statistical Programme;
- concentrating the efforts of the statistical bodies towards the improved turning into account statistical data and information; adopting pertinent and reliable solutions in sensitive fields, such as consumer prices index and inflation, assessment of international migration in accordance with the EU standards, refining the surveys in the labour market field in view to capture phenomena and processes specific to the recession and economic crisis period, improving the way of monitoring the evolution of real estate market prices, refining the system of living standard evolution monitoring, etc.

All these imperatives of the National Institute of Statistics concerns, involving sustained efforts at all levels, will undoubtedly entail a major step forward in terms of Romanian statistics position on an upper place among the European Union Member States and, at the same time, in terms of consolidating the INS role and place as fundamental institution of the Romanian society.

Notes:

1. The legislative package that should be adopted this summer concerns, from a fiscal point of view, the consolidation of the regulations attached to the Growth and Stability Pact and the adjustment of the national budgetary framework to European needs as well as the prevention and correction of macro-economic imbalances.

2. ESSC - Committee consisting of leaders of the Member States national statistical institutes, set up based on Regulation (EC) no. 223/2009 of the European Parliament and of the Council which ensures professional guidance to the European Statistical System in relation with European statistics development, production and dissemination.

3. ESGAB – advisory body whose purpose is to develop an independent analysis of the European Statistical System (ESS) in relation with the implementation of the European Code of Practice in statistics. It was established exactly in view to ensure the strengthening of

professional independence and the ESS integrity, as well as an enhanced quality of European statistics.

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